

**Section II:
Processes, Policies &
Summaries**

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City Manager's Budget Message

**Honorable Mayor and City Council, Fife residents, business owners and operators and other interested parties,
City of Fife, WA**

I am pleased to submit the adopted 2012 Annual Budget. This budget was developed in recognition and support of the City Council Goals, service and infrastructure needs, available financial and intellectual resources and the requirement to balance these in consideration of current and projected economic conditions. By all accounts, this budget has been the most challenging in the City's recent history. The City Council is due important credit and thanks for the very tough policy choices they were required to make in development of the 2012 Budget. Recognition also needs to be provided to the City's employees and management team who have worked collaboratively to deliver municipal services and maintain levels of services with significantly reduced resources, including fewer co-workers.

The annual budget represents the City government's overall plan for allocating public resources to a variety of programs. These programs serve to promote the security of our community, enhance the quality of life of our residents, promote a vibrant environment for our businesses, and infuse public investment into our community in the form of capital improvements and strategic planning.

This budget cycle was difficult for a number of reasons, not the least of which was what had been referred to as the "Great Recession," the deepest recession our nation has experienced since the Great Depression. Additionally, due to significant fund reserves in past years, the City has managed to maintain service at high levels by spending a significant share of what was a very large fund balance. The strategy of utilizing fund balance to sustain operations was sound; unfortunately, the length of the recession and an unprecedentedly sluggish recovery exceeded the City's ability to continue to rely on this strategy. Accordingly, this budget represents a major course correction to a more fiscally disciplined budget. As a result, the reader will note numerous course corrections, in the form of expenditure reductions, have been made throughout this budget. This budget represents a significant stride to realign service delivery costs with revenue receipts and present a more sustainable model for the future.

Also included as a prominent part of the 2012 Budget are workload and performance measures for each department. These measures were developed by each department and are intended to assess and track workload and performance in key task areas this will provide valuable information for policy and decision makers as to the effectiveness and efficiency of programs and services, allocation of resources and public demand. As this is the City's first formal effort at performance measurement, in most cases, the measures included represent the basics. As the organization becomes more familiar with utilizing formal performance and workload measures to achieve greater efficiencies, the measures you see today will be further refined or modified in coming years.

I also want to note here the professional manner in which the City's Executive Leadership Team and staff answered the call to work together in developing this budget. The economic conditions under which this plan was formed were more difficult than department heads and key staff have previously experienced. Together we introduced fiscal discipline and employed creativity, innovation and a strong commitment to efficiency in order to develop a plan that largely maintains our superior service-levels, while responding

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realistically to economic realities. This is the type of thinking, collaboration and action that will be necessary to ensure the City meets current economic challenges and positions itself for long term sustainability. The experience was the type that helps a group gel as a strong, vibrant team, and that occurred.

As to the economic outlook, although the national and regional economies show signs of improvement, we anticipate the recovery to continue to be a slow process. As a result, 2012 General Fund operating expenditures, excluding transfers out, are flat as compared to the adopted 2011 levels, with a slight decrease of 0.6% percent. As noted above, this budget represents a significant realignment from prior budgets, and is one which implements a policy for 2012 and beyond of aligning on-going and one-time expenses with on-going and one-time revenues. This will help assure that the City lives within its means and is strategically positioned to adjust to future economic cycles.

In spite of the fiscal challenges of recent years, the City has established an impressive track record of achievement which includes:

- Providing a high level of transparency and access to our citizens.
- Pro-active government that is responsive to the residents and the business community.
- A Police Department that is staffed to provide for the safety of the community through proactive efforts and is responsive to criminal activity.
- Well maintained public infrastructure.
- An expanding Parks system and high quality recreation programming.
- Execution of a Capital Improvement Program which not only serves our residents and business, but has the added burden of serving the region.
- Accountability for the public's resources. Our most recent financial audit from the State Auditor's Office was the 11th consecutive audit without a finding and included no management comments.
- Strong partnerships with the Puyallup Tribe, Port of Tacoma, WSDOT, Pierce County, our neighboring cities and non-profits.

These are just a few of the many accomplishments in which Fife residents, business owners/operators and our community partners can take pride. As a City, Fife has enjoyed some incredible highs, accomplished far more than could have been imagined a generation ago, and has an even more exciting future ahead provided proper planning, investment and execution occur.

The City Council's 2011 and 2012 Goals were prominent in the minds of staff in the development of this Budget. In addition, the City's adopted Comprehensive Plan and Capital Facilities Plan were relied upon. Readers are encouraged to review the individual Department work programs and performance measurements (Section III) to gain a clearer understanding of the services and service levels the City is providing in 2012.

Budget Process

Washington State law requires the City to adopt a balanced budget. Beyond that, the City has ethical and fiduciary responsibilities to the public to account for public funds, prudently manage municipal finances and plan adequate and realistic funding for services and facilities desired and needed by the public. Appropriations are therefore limited to the total estimated revenues for the upcoming year, plus any unencumbered fund balance estimated to be available at the close of the 2011 fiscal year.

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In that many of these ethical and fiduciary responsibilities are shared between the City Council and City Manager, it is important that the Council be engaged periodically throughout the year to establish the policies that ultimately drive the annual budget. In this regard, the Council invested considerable time and effort in the 2012 budget process, including no less than five special meetings dedicated largely to the process. The first of these was a retreat in January, where they reviewed the 2011 Council Goals and developed a complementary set of goals for 2012. In March the Council reviewed and provided policy direction on pipeline capital projects, and engaged in a strategic planning effort on how several of their major goals could be accomplished, including economic development, connectivity and campus development and performance evaluation of several funds. In July, Council: approved the budget process and schedule; was updated and provided policy direction on capital projects; reviewed and provided policy direction on the fund balance of the Stadium and Convention Tax Fund and the uses of its Lodging Tax revenues; was briefed and provided direction on an economic development strategic planning process effort initiated at the March retreat; reviewed and provided policy direction on 2012 Storm Drainage Fund activities; and was provided a general fund budget update for 2011, including the implications of labor costs, healthcare and influence of external costs, all impacting the 2012 Budget. At the two most recent September special meetings, Council was provided previews of the General Fund fiscal challenges, enterprise and special revenue funds and debt funding needs, and then provided policy direction to staff to finalize the preliminary budget.

In March, Department Directors were asked to begin developing their 2012 Budgets and were directed to base them on the policy direction set by Council and their professional judgment as to need. It was important to me to see initial requests without regard to the projected budget limitations, allowing me as the new City Manager to better evaluate the gap between need as determined by the departments and ability to serve as determined by economic realities. Departmental requests were compiled and submitted to the City Manager for review in July. During the months of August and September, I worked with the Directors individually and collectively to refine and align department proposals to adopted Council Goals and the financial resources as projected. While we are beginning to see some signs of business growth, I have taken a reasonably conservative approach to the 2012 revenue projections, accounting for only growth known to be coming online.

General Fund

The General Fund relies primarily on two major revenue streams to fund services for its citizens: sales tax and property tax. In 2012, these revenue streams are expected to make up 56 percent of all General Fund revenues. General Fund revenues for calendar year 2012 from all sources are projected at \$13.6 million. This amount represents 24 percent of citywide revenues and is a 3 percent reduction over the 2011 budget as amended.

- **Sales Taxes**

For 2012 the budget reflects an increase of 7% over 2011. This increase was projected as a result of trend information and known growth coming online. In 2011 sales tax receipts have been significantly lower than the highs of recent years. You will note in the table below that while the auto related sales tax is significantly lower than in the hey-days of 2006-2008, sales tax receipts for goods and services have seen an even steeper decline. And though not as large a number from a percentage perspective, construction related sales tax has also declined significantly. The one positive to take away from this graphic is that we have apparently settled into a “new normal” or stable baseline for sales tax generation, as the period 2009 to present appears to indicate a

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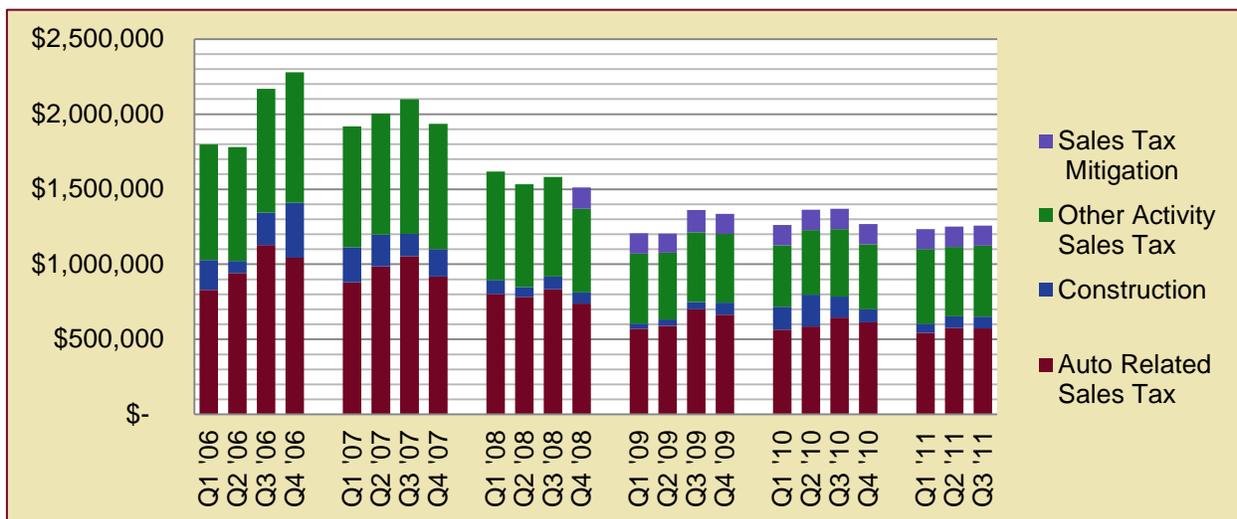
flat but stable trend. In the latter part of 2011, two new luxury car dealerships opened in Fife, with a new facility opening for an existing dealership. These additions to the business community provide a welcome boost to sales tax receipts.

- **Property Tax**

Washington State law provides that cities can increase its property tax levy up to one percent annually. For 2012, the City Council imposed the one percent, along with an additional two percent of banked capacity. The banked capacity is the result of the City having previously banked the one percent property levy allowance the previous two years, rather than imposing the increase. The City was able to avoid increasing the property tax levy during 2010 and 2011 by utilizing surplus reserves in order to compensate for the significant decline in retail sales tax. This strategy relied in part on the recession yielding to a strong recovery; unfortunately the recession proved to be longer than anticipated and the subsequent recovery more stubborn than we have seen in recent history. As a result, the level of surplus reserves has been significantly reduced. Accordingly, and as part of the course correction, the banked capacity of two percent as well as the one percent increase in the levy rate for 2012 was necessary to maintain current service levels. How does this translate to the homeowner? To put in real terms, a home valued at \$200,000.00 would see the City share of their annual property tax bill increase by approximately \$7.46 for the year.

General Fund Major Expenses

General Fund expenditures (excluding operating transfers) for 2012 are anticipated to be \$13.2 million, or 17 percent of citywide expenditures. As previously stated, this budget implements a fiscal strategy which relies less on fund balance to make up the difference between planned expenditures and projected revenues.



The reader will note in the department budget narratives that expenditures are broken into two primary categories: 1) personnel and 2) maintenance and operating (M&O) expenses. Additionally, Non-Departmental has \$824,000 in operating transfers that are shown separately.

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- **Personnel Expenditures**

General Fund personnel costs (salaries, overtime and benefits) make up 71 percent of overall General Fund expenditures and account for \$9.9 million in the 2012 Budget. General Fund personnel expenditures are decreasing 2 percent over actual estimated 2011 personnel costs. This decrease is due to the elimination of several General Fund positions within the organization, which are further detailed below. The decrease in personnel is partially offset by contractual salary/merit step increases and a mandated increase in state pension contributions.

- **Maintenance & Operating Expenditures**

General Fund Maintenance & Operating (M&O) expenditures included in the 2012 Budget amount to \$3.3 million and make up 23.4% of the overall General Fund budget. M&O expenditures are increasing 5.4% compared to 2011 as projected to the end of the year. Many of these increased costs are outside of the direct control of the City, such as utilities, materials and supplies and contracted services.

General Fund Reserve

The City Council previously established a policy of budgeting a General Fund Operating Reserve of seventeen (17) percent (two months) of the annual General Fund expenditure budget. This level of reserve is necessary in order to maintain reliable cash flow throughout the fiscal year. In order to maintain current levels of service in spite of a reduction in expenditures, it is necessary to utilize some portion of the General Fund reserves above the seventeen (17) percent threshold for 2012. Accordingly the recommended reliance on General Fund reserves for 2012 is approximately \$400,000. This is significantly less than the levels of prior years, particularly when taking into account one-time revenues. And given the challenges faced in developing this budget, a relatively small number. That said, even this level of reliance on reserves cannot be sustained beyond 2013. The organization must dedicate itself next year to evaluating cost centers and investing in strategic planning efforts that can bring about large scale and diversified economic development. This latter effort will take years to see to fruition and is necessary in order to achieve a reliable level of sustainability in the future.

Major Special Revenue Funds

- **City Street Fund**

The City Street fund receives revenues from state-wide gas tax receipts and liquor excise tax on a per capita basis. In 2012 it is anticipated these revenues will amount to \$195,003 and \$46,192 respectively. Expenditures to maintain the City's 80-lane miles of roads and associated signs and roadsides are at \$640,398. This shortfall has been ongoing for several years. For the previous four cycles the gap was filled utilizing fund reserves, which are now depleted. A transfer of \$310,000 from the General Fund is necessary to support Street operations for 2012.

- **Detention Fund**

Detention Services operates as a special fund independent of the general fund and is supported by a combination of revenues including housing detainees for other agencies, a general fund transfer to house Fife detainees, and what has become a growing general fund subsidy necessary to balance fund revenues with expenditures. In 2012 a significant increase in the general fund subsidy will be required to balance the fund. Based on the current business model we can expect the subsidy to continue to increase into the future. The recent loss of the Federal

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Way jail contract will result in a loss of approximately \$245,000 of revenue to the fund for 2012, some of which may be offset by other users. Nonetheless, this budget provides for an increase in the subsidy to the fund to a total of \$514,000.

- **Public Safety Fund**

This fund receives the proceeds from the City's photo enforcement program and funds associated with administrative and contracted costs, as well as capital projects meeting the criteria established by the City Council by resolution. It is anticipated that program revenues will remain at 2011 actuals of \$3.0 million. The budget proposes 2012 capital expenditures of approximately \$2.5 million, which are detailed within the fund narrative.

- **1997 Bond Fund**

This Fund accounts for the City's utility taxes that are programmed for General Obligation Debt Service. Utility tax revenues for 2012 are projected to exceed 2011 projected revenues by approximately \$167,000 or 14 percent. This increase is supported by a modest amount of new construction, along with historical usage trends, rate increases for non-City owned utilities, a programmed increase in City water rates, and a utility tax rate increase of 3% (from 3% to 6%) on electrical utilities.

- **City Utilities**

The City operates Water, Sewer and Storm Drainage Utilities. Also referred to as enterprise funds, each utility is fully supported through user fees. No rate increases are anticipated for either the Sewer or Storm Drain utilities. The programmed water rate increase of 20% previously approved by the Council became effective on January 1, 2012.

Personnel Changes

The City of Fife is a service-based business. Without the City workforce, the essential services they provide to the community would not be delivered. Accordingly, our employees and what they bring to their jobs every day are our greatest asset and, not surprisingly, our greatest expense. To meet the City's 2012 goals and in recognition of our economic climate, the 2012 Budget provided for the reduction of several key positions from among the City's General Fund workforce. The elimination of these positions is difficult and will have a negative impact on organizational capacity. The positions eliminated within this budget are as follows:

- **City Manager's Office (1 FTE)**

The position of Assistant City Manager will remain vacant and unfunded for 2012. As critical as the position is to the organization, filling it today would require a reduction in personnel elsewhere. The vacancy will, however, adversely impact organizational capacity in almost all areas of operation.

- **Community Development (0.5 FTE)**

Due to the relatively low level of development activity and the retirement of the current Acting Community Development Director, the position of Senior Planner is funded through May of 2012. In selecting a successor to the current Director, an emphasis will be placed on a professional planning background and experience with Washington State law related to community planning.

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- **Police (1 FTE)**

The position of Dispatch Supervisor was created a few years ago. It was thought at that time the position would free up Command Staff to perform other duties. While that has proven to be the case in some respects, the cost to support the position is not in line with the value provided. This position elimination will impact Command staff.

- **Court (1.5 FTEs)**

The Judicial Compliance Officers monitor certain individuals adjudicated by the Fife Municipal Court. Caseloads have dropped significantly over the past several years, to a point where the program can no longer be subsidized. There are 1.5 FTEs assigned this task and this Budget eliminates both positions. The result is the Judge will monitor compliance to judicial orders from the bench.

- **Public Works (1 FTE)**

The position of Engineering Inspector is currently vacant due to a resignation. The 2012 Budget will leave the position vacant and unfunded for 2012. The vacancy puts additional burden on an already thin Engineering division and will result in a greater reliance on outsourcing of some inspection services.

Capital Investment

The 2012 Budget includes numerous opportunities to implement vital capital investments that address some of Fife's most pressing transportation, park development, environmental enhancement and water supply needs. These projects serve to enhance the quality of life of Fife residents, strengthen the business community and enhance health and safety.

The 2012 Budget includes \$24.8 million in adopted capital investment. A listing of the 2012 capital projects, along with a detail summary sheet of each project, is included in Section IV – Capital Improvement Projects.

The major funding sources utilized to fund 2012 projects are the Real Estate Excise Tax (REET), utility user fees, mitigation/impact fees, grants, bonds and debt proceeds from the sale of property.

Our Financial Condition

The City's overall financial condition is sound, the General Fund is stable. The rating agency Standard and Poor's recently rated a City of Fife Limited General Obligation Bond at an A+, retaining a rating the City previously received during much better economic times. This vote of confidence from a third party independent source specializing in the evaluation of public agencies provides an indication that the City is fiscally strong and making sound decisions.

While sales tax revenues are significantly reduced from a half decade ago, they have been consistent the past three years. Fund reserves are healthy at 24 percent, though less so than in previous years, as there had been a significant ongoing reliance on use of reserves to fund operations. The 2012 Budget dramatically reduces the reliance on fund reserves and other one-time revenues to balance the General Fund budget. And this is a trend that needs to continue until there is no such reliance.

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The City is well positioned for a recovery in retail sales, specifically in the auto sector. There has been considerable private investment to improve and expand facilities among the retail auto dealers within the City; two dealerships new to Fife, Audi and Porsche, and a new Mercedes facility, all part of the Larson Automotive Group, opened late in 2011. This good news aside, the budget takes a cautiously optimistic view with respect to 2012 sales tax revenues.

Conclusion

Developing a balanced budget is always a challenge and, under the current circumstances pressing this organization, even more so. This budget maximizes resources by establishing value between the services it provides and the taxes paid by its citizens. As difficult as this document was to develop, Fife is in the enviable position of being able to continue providing quality municipal programs and services to our residents and businesses, quality that makes Fife a desirable location in which to live and conduct business.

In addition to Council Goals and adopted plans and policies, there were two additional decision-making filters used in the development of this budget:

1. If the City, along with the services it provides, went away tomorrow, why would the people want us back?
2. In an environment where reductions are necessary, reducing or eliminating costs in the least essential areas first is preferred over across the board cuts that eventually reduce service to unacceptable levels in all areas.

Finally, I want to acknowledge the dedication and service of the City's employees, whose labor ensures our operations are efficient and effective, and the City Council, who as leaders and policy makers representing the citizens of Fife, work tirelessly to improve the City's already high quality of life. Also, I want to recognize the many skilled and dedicated employees who worked to prepare the 2012 Budget, without whose assistance this comprehensive document could not have been developed.

Respectfully submitted,
David K. Zabell
City Manager

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Budget Cycle

The City budget cycle consists of six distinct phases:

1. Goals Formulation – January

The City Council and Manager meet to develop goals for the subsequent year.

2. Budget Formulation – June-September

Executive Leadership Team begins to develop and submit their initial budget requests to the City Manager. The City Manager then evaluates these requests against projected resources, City Council goals and level of service demands to develop the Preliminary Budget.

3. Review and Adoption – October-December

City Council reviews the City Manager’s recommended budget, conducts public hearings, accepts or modifies the budget and adopts the budget for the next year.

4. Implementation – January

Once adopted, staff is tasked with carrying out the services and projects as described in the annual budget.

5. Monitoring – January-December

Finance and the Executive Leadership Team monitor revenues and expenditures throughout the year to ensure that funds are available and used in an approved manner. Quarterly budget reports are provided to the City Council. Staff evaluates trends, changes in laws and other material events to determine the impact of external changes on the City’s sources of revenues and expenditure limitations or mandates.

6. Routine – April

The budget is amended to reflect prior year final ending costs and material changes in revenues and/or expenses.

7. If Necessary – November

The final budget amendment, if needed, is approved in November.

8. Evaluation – February-June

During this stage, audits are conducted by the State and annual financial reports are produced. The entire budget process covers a period of approximately six to seven months.

Calendar for the Preparation of the 2012 Budget Process

Council Budget Retreat	January 28-29
Council Budget Workshop	March 26
Council Budget Workshop	July 16
Council Budget Workshop	September 10
Council Budget Workshop	October 4
Public Hearing – Revenues and Property Tax Levy	October 11
General Fund Department Review	October 18
Public Hearing – 2012 Annual Budget	October 25
First Reading of Budget Ordinance	October 25
Second Public Hearing and Adoption of Budget Ordinance	November 8

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ORDINANCE NO. 1753

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF FIFE, PIERCE COUNTY, WASHINGTON ADOPTING THE BUDGET FOR THE CALENDAR YEAR 2012

WHEREAS; the Preliminary Budget for the calendar year 2012 was submitted to the City Council by the City Manager on October 18, 2011; and

WHEREAS; after providing notice as required by RCW 35A.33.060, the City Council held public hearings on October 25, 2011 and November 8, 2011; and

WHEREAS; a copy of the Preliminary Budget was on file with the City Clerk for examination by the public during the time it was being considered by the City Council; NOW, THEREFORE,

THE CITY COUNCIL OF THE CITY OF FIFE, WASHINGTON
DO ORDAIN AS FOLLOWS:

Section 1. The Preliminary Budget of the City of Fife for the 2012 calendar year, a copy of which is on file with the City Clerk, is hereby adopted by reference as the adopted annual budget of the City of Fife for the calendar year 2012.

Section 2. The total estimated revenues and appropriations by funds, all as set forth in the 2012 budget document adopted by reference, is as follows:

A. ESTIMATED REVENUES BY FUND:

General Fund	\$13,622,381
Street Operating Fund	631,113
Detention Services Fund	1,077,524
Public Safety Fund	3,084,950
Stadium and Convention Center Fund	468,500
Contingency Fund	400
Growth Management Fund	173,912
Criminal Justice Fund	253,822
D.A.R.E. Fund	7,500
Impact and Mitigation Fund	52,000
Drug Intervention Fund	336,500
Park Acquisition and Development Fund	82,422
Street Construction Bond Fund	655,405
LID Guarantee Fund	0
1997 LTGO Bond Fund	1,302,200
2001 LTGO Bond Fund	362,073
2011 LTGO Bond Fund	141,000

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Street Construction Fund	18,901,983
Recreation/Pedestrian Capital Facilities Fund	120,200
Misc Capital Projects Fund	9,000
Water Utility Fund	3,403,200
Sewer Utility Fund	3,591,900
LID BANs Fund	0
Storm Utility Fund	712,000
Parity Bond Fund	967,533
Utility Construction Fund	1,432,000
Fleet Fund	504,408
Beginning Fund Balances	\$38,521,462
TOTAL ESTIMATED REVENUES	\$90,415,388

B. APPROPRIATIONS BY FUND:

General Fund	\$14,023,207
Street Operating Fund	640,398
Detention Services Fund	1,077,367
Public Safety Fund	3,755,796
Stadium and Convention Center Fund	2,126,500
Contingency Fund	0
Growth Management Fund	582,679
Criminal Justice Fund	321,973
D.A.R.E. Fund	23,436
Impact and Mitigation Fund	1,000,000
Drug Intervention Fund	341,563
Park Acquisition and Development Fund	1,999,303
Street Construction Bond Fund	655,405
LID Guarantee Fund	0
1997 LTGO Bond Fund	1,447,370
2001 LTGO Bond Fund	362,073
2011 LTGO Bond Fund	141,000
Street Construction Fund	18,694,101
Recreation/Pedestrian Capital Facilities Fund	100,000
Misc Capital Projects Fund	125,000
Water Utility Fund	3,000,918
Sewer Utility Fund	6,106,116
LID BANs Fund	168,022
Storm Utility Fund	1,225,225
Parity Bond Fund	952,124
Utility Construction Fund	3,770,639
Fleet Fund	678,410
Ending Fund Balances	<u>27,096,763</u>
TOTAL APPROPRIATIONS	\$90,415,388

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Section 3. This ordinance shall be in full force and effect five (5) days from and after its passage, approval and publication in summary form as provided by law.

Introduced to the City Council on the twenty-fifth day October, 2011.

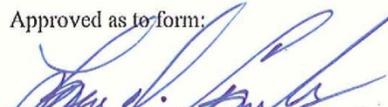
Passed by the City Council on the 8th day of November, 2011.


David K. Zappell, City Manager

Attest:


Carol L. Etgen, City Clerk

Approved as to form:


Loren D. Combs, City Attorney

Published: 11/11/11
Effective Date: 11/10/11

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About the Budget

Basis of Accounting

Basis of Accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the (city) also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America.

Basis of Budgeting

Funds are budgeted on the cash basis of accounting, as noted above. This is where revenues are estimated and appropriations set based on anticipated cash receipts and disbursements.

Budget Adjustments

The City Manager is authorized to transfer budgeted amounts between departments and line items within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

Budgeting, Accounting and Reporting Systems (BARS)

The City of Fife accounts and reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under authority of Washington State law, Chapter 43.09 RCW.

The City of Fife uses single-entry, cash basis of accounting as prescribed for small cities by the Washington State Auditor's Office. This is a departure from generally accepted accounting principles (GAAP) as applicable to local governments.

The accounts of the City of Fife are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending upon their intended purpose. All funds are budgeted except Fiduciary. The following types of funds are used by the City of Fife:

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- **Governmental:** Funds that account for the activities of the City which are of a governmental nature.
- **Proprietary:** Funds that account for the activities of the City which are proprietary or “business” in nature.
- **Fiduciary:** Funds held by the City as a trustee, e.g. deposits.

Governmental Fund Types:

- **General (Current Expense) Fund (000-099):** Accounts for all financial resources except those required to be accounted for in another fund. Although the City has to report only one general fund, it can have multiple general sub funds for its internal managerial purposes.
- **Special Revenue Funds (100-199):** These funds account for all revenues that are legally restricted or designated to finance particular activities of the City of Fife. The special revenue funds of the City are the Street Fund, the Detention Services Fund, the Public Safety Fund, the Stadium/Convention Tax Fund, the Contingency Fund, the Growth Management Fund, the Criminal Justice Fund, the D.A.R.E. Fund, the Impact and Mitigation Fund, the Drug Intervention Fund and the Park Acquisition and Development Fund.
- **Debt Service Funds (200-299):** These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt. The debt service funds of the City are the Street Construction Bond Fund, the 1997 Limited General Obligation Bond Fund and the 2001 Limited Obligation Bond Fund.
- **Capital Project Funds (300-399):** These funds account for financial resources which are designated for the acquisition or construction of general government capital projects. The capital project funds of the City are the Street Construction Fund and the Recreation and Pedestrian Capital Facilities Fund.

Proprietary Fund Types:

- **Enterprise Funds (400-499):** These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. The enterprise funds used by the City are the Water Utility Fund, Sewer Utility Fund, Storm Drainage Utility Fund, Parity Revenue Bond Fund and Utility Construction Fund.
- **Internal Service Funds (500-599):** These funds account for operations that provide goods or services to other departments or funds of the City of Fife on a cost reimbursement basis. The City’s only internal service fund is the Fleet Fund.

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Fiduciary Fund Types:

- **Agency Funds (600-899):** These funds are used to account for assets that the City of Fife holds for others in an agency capacity. The agency funds used by the City are the Payroll Clearing Fund, the Non-Revenue/Non-Expense Fund and the Petty Cash Fund.

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Description of Departments, Divisions & Funds

General Fund (000-099) – The following departments and divisions are expended from this fund:

- **001 General Fund**
 - **Legislative**
 - **Executive**
 - Executive
 - Human Resources
 - Civil Service
 - Information Technology
 - Legal
 - **Finance & Administrative Services**
 - Finance
 - Administrative Services
 - **Municipal Court**
 - Court
 - Probation
 - Security
 - **General Government**
 - Facilities
 - Grounds
 - **Law Enforcement**
 - Operations
 - Gambling
 - Traffic
 - Communications
 - Crime Prevention
 - Emergency Management
 - Investigations
 - Community Policing
 - Drug Enforcement
 - **Engineering & Public Works Administration**
 - **Community Development**
 - Planning
 - Building
 - **Parks, Recreation & Community Services**
 - Recreation Services
 - Swim Center
 - Parks Maintenance
 - **Non-Departmental**

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Processes, Policies & Summaries

Special Revenue Funds (100-199)

- **101 Street Operating Fund** – This fund exists for the segregation, budgeting, expenditure and accounting for monies received for the purpose of funding the construction, repair and maintenance of City streets. There are three divisions in this fund: Street Operating, Maintenance and Construction Improvements.
- **102 Detention Services Fund** – This fund tracks all revenues and direct expenses related to the housing of Fife prisoners and contracted prisoners from other agencies and contracting of Fife prisoners to other agencies.
- **103 Public Safety Fund** - The purpose of the public safety fund is to segregate, budget, expend and account for monies derived from the photo red light enforcement program. Expenditures from the public safety fund may only be used for the purpose of paying for the costs of the red light enforcement program, including the City's administrative costs; provided, however, if there are surplus monies in the fund, then the surplus monies may only be expended for the following purposes: (1) purchase and installation of school zone signs and lights; (2) pedestrian overpass/underpass design and construction costs; (3) sidewalk design and construction costs; (4) streetlight acquisition, operation and maintenance; (5) signalized pedestrian crosswalks; (6) the purchase, design and construction of pedestrian trails that serve to redirect pedestrian traffic off of streets with high traffic volumes; and (7) the design and construction of similar pedestrian safety oriented improvements.
- **104 Stadium/Convention Tax Fund** – This fund receives lodging tax revenues and distributes these funds in the interest of promoting visitors to Fife. Lodging tax revenues are collected by the hoteliers in Fife in the form of a tax on overnight stays.
- **105 Contingency Fund** – The purpose of the contingency fund is to provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual budget. This fund may be supported by a budget appropriation from any tax or other revenue source not restricted in use by law. The total amount accumulated in such a fund at any time shall not exceed the equivalent of 37.5 cents per thousand dollars of assessed valuation of property within the City.
- **106 Growth Management Fund** – The purpose of the growth management fund is to segregate, budget, expend and account for monies dedicated to the purpose of preparing and implementing growth management programs as required and intended by State law.
- **107 Criminal Justice Fund** – The purpose of the criminal justice fund is to segregate, budget, expend and account for monies dedicated to the purpose of augmenting existing funding levels for the City's criminal justice system, as required and intended by State law.

Section II: *Processes, Policies & Summaries*

- **108 D.A.R.E. Fund** – A nationally recognized program, the Fife Police D.A.R.E. program teaches our community’s children resistance to drug abuse. This on-going program is funded by court assessments.
- **109 Impact & Mitigation Fund** – The impact and mitigation fund is used to receive and segregate revenues into general, street, park and utility categories dollars that have been contributed and dedicated for the purpose of mitigating the impacts of City or developer related projects or for assessments by the City for impacts brought about by the development of projects.
- **110 Drug Intervention Fund** - Investigative fund assessments, evidence fund confiscations and other drug related money is deposited into this fund. Its use is restricted to the expansion and improvement of controlled substances related law enforcement activity.
- **111 Park Acquisition Fund** – All moneys received from grants for park development and acquisition are deposited into this fund. All monies received by the City from the lease agreement entered into by and between the City of Fife and GTE Mobilnet Incorporated are designated for this fund for the acquisition and development of City parks. The net proceeds from the sale of the City property located at 5209 Pacific High East were deposited into this fund.

Debt Service Funds (200-299)

- **207 Street Construction Bond Fund** – the purpose of the street construction fund shall be to segregate monies that have been received for the purpose of street construction for those projects identified in the City’s adopted Transportation Improvement Program (TIP). The Finance Director shall create such special categories as are necessary to properly account for funds required to be expended on a specific project.
- **209 LID Guaranty Fund** - Reserves funded by assessments and would only be used in the case of a LID assessment default.
- **213 1997 Limited General Obligation Bond Fund - \$5,300,000 issue** – To construct a Criminal Justice Facility on “North Campus” (now known as the James M. Paulson Criminal Justice Center), move the Public Works facility on North Campus and construct a City Hall on City property on 23rd St. E. Utility taxes are the source of revenue for payment of these bonds.
- **214 2001 Limited General Obligation & Refundable Fund - \$5,065,000 Issue** – Proceeds of the bonds were used to finance the purchase of property for parks and open space and to refund the City’s outstanding 1987 and 1991 bonds to effect savings for the City. Transfers from the Recreation and Pedestrian Capital Facilities Fund (for the property purchase) and the General Fund (for the refunded bonds) pay annual debt.

Section II: *Processes, Policies & Summaries*

- **215 2011 Limited General Obligation & Refunding Fund** – \$5,835,000 Proceeds of the Bonds will be used to (a) obtain part of the funds necessary to undertake the reconstruction of 70th Avenue East from 20th Street East to Valley Avenue East in the City; (b) refund, on a current basis and defease the City’s outstanding Limited Tax General Obligation and Refunding Bonds, 2001; and (c) pay incidental costs and costs related to the sale and issuance of the Bonds.

Capital Project Funds (300-399)

- **301 Street Construction Fund** – The street construction fund pays the capital cost of the planning, survey, design, permitting, right-of-way acquisition, construction, inspection and administration of transportation improvement projects including:
 - 70th / Valley Phase I
 - 70th / Valley Phase II
 - ROW Acquisitions
 - 34th Avenue and 12th Street Improvements
 - Sidewalk East side of 62nd Avenue
 - 62nd Avenue Streetlights
 - Transportation Comprehensive Plan Update
 - Freeman Road Reconstruction
- **303 Recreational & Pedestrian Capital Facilities Fund** – The purpose of this is to approve funds and expend them for the purposes of constructing pedestrian improvements such as crosswalks, sidewalks, pathways and similar pedestrian amenities and for capital improvements that benefit recreational services and programs. This fund is a revenue source for the property purchase portion of the 2001 Ltd. GO Bonds. The revenue source for this fund is card room gambling taxes.
- **305 Miscellaneous Capital Projects** – This fund was created to receipt the unrestricted proceeds from the sale of the real estate known as the “Gathering Place” and to account for expenditures made using these monies.

Enterprise Funds (400-499)

- **401 Water Utility Fund** – User fees generate revenue for this fund. Those funds are used to operate and maintain the City’s water utility.
- **402 Sewer Utility Fund** – User fees generate revenue for this fund. Those funds are used to operate and maintain the City’s sewer utility.
- **403 LID 08-1 & LID 08-2 BANS (Bond Anticipation Notes)** – Notes issued for that portion of LID 08-1 and LID 08-2 for capitalized interest.

Section II: *Processes, Policies & Summaries*

- **404 Storm Drainage Utility Fund** – This fund exists for the segregation, budgeting, expenditure and accounting for monies received for the purpose of addressing storm and surface water drainage issues in order to protect public and private property, to preserve streams, wetlands and floodways, to minimize water quality degradation from urban runoff and to ensure the sound development of property within the City to the benefit of all citizens.
- **405 Parity Revenue Bond Fund** – The purpose of this fund is to pay and secure the payment of the principal, premium, if any and interest on the Parity Bonds issued by the City. The Bond Fund consists of two accounts: (a) the Principal and Interest Account and (b) the Reserve Account. Each account is held separate and apart from the other. The purpose of the Parity Revenue Bond Fund is to pay part or all of the costs of certain capital improvements to the City's sanitary sewer system, including the improvements carried out by Utility Local Improvement District No. 98-2.
- **410 Utility Construction Fund** – This fund provides capital improvements to the City's utilities. This is funded through General Facility Charges and operating transfers from the respective utility funds.

Internal Service Funds (500-599)

- **504 Fleet Fund** – The purpose of the Fleet Fund is to provide for the acquisition, replacement, maintenance and repair of fleet vehicles for the City of Fife, all being necessary for the benefit of the public served. An internal service fund is used to account for the financing of goods or services provided by one department to other departments within the City of Fife on a cost-reimbursement basis. The original purpose of this fund was to purchase machinery & equipment for the Public Works Department. The fund has grown and developed and is now used as an Internal Service Fund providing the purchase, repair and maintenance of the City's fleet of licensed vehicles.

Fiduciary Funds (600-899) – (Not budgeted)

- **631 Payroll Clearing Fund** – This fund clears payroll for the City by remitting paychecks to employees and benefits to providers.
- **635 Non-Revenue/Non-Expenses Fund** – This fund receipts and disburses monies collected for distributing to third parties, including revenue sharing due Washington State.
- **810 Petty Cash Fund** – This fund represents money held in various petty cash boxes to facilitate cash purchases.

Section II:
Processes, Policies & Summaries

Revenues

The revenue accounts of the City are also prescribed by the BARS manual. Revenue accounts are also called Resource accounts and always start with a “3” in the Basic Account. The remaining numbers indicate the funding source for that revenue.

Basic Revenue Accounts

- 308 Beginning Cash and Investments
- 310 Taxes
- 320 Licenses and Permits
- 330 Intergovernmental Revenues
- 340 Charges for Goods and Services
- 350 Fines and Penalties
- 360 Miscellaneous Revenues
- 370 Capital Contributions (Proprietary Funds Only)
- 380 Non Revenues
- 390 Other Financing Sources

Section II:
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Expenditures

The expenditure accounts of the City are also prescribed by the BARS manual. Expenditure accounts are also called Use accounts and always start with a "5" in the Basic Account. The remaining numbers indicate the funding source for that expenditure.

Basic Expenditure Accounts

- 508 Ending Cash and Investments
- 510 General Government Services
- 520 Public Safety
- 530 Utilities and Environment
- 540 Transportation
- 550 Economic Environment
- 560 Mental and Physical Health
- 570 Culture and Recreation
- 580 Non-Expenditures
- 591 Debt Service
- 592 Debt Service
- 593 Debt Service
- 594 Capital Expenditures
- 595 Capital Expenditures
- 598 Other Operating Expenditures
- 596 Other Financing Uses
- 597 Other Financing Uses
- 599 Other Financing Uses

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Expenditure Objects

The funds allocated in each department budget are categorized according to the following “object” expenditure classification:

- **10 Salaries and Wages**
Amounts paid for services rendered by employees in accordance with rates, hours, terms and conditions authorized by state law or employment contracts. Includes overtime, on-call, sick, vacation and holiday paid leave.
- **20 Payroll Taxes and Benefits**
Amounts paid by the employer as part of the conditions of employment. Includes employer paid portions of Social Security Medicare, Industrial Insurance, Unemployment Insurance, Retirement and Health Insurance Benefits.
- **30 Supplies**
Amounts paid for articles and commodities purchased for consumption or resale. Includes office and operating supplies, small tools and equipment.
- **40 Services**
Amounts paid for services other than personnel which are needed by the City. Services may be provided by a public agency or private business. Includes such services as professional services (consultants), communications, travel, insurance, utility services, repairs and maintenance, membership dues and subscriptions.
- **50 Intergovernmental Services**
Amounts paid for intergovernmental purchases for specialized services typically performed by local governments.
- **60 Capital**
Expenditures which result in the acquisition of, rights to, or additions to capital assets including incidental costs such as legal, appraisal and brokerage fees, land preparation and demolishing buildings, fixtures and delivery costs. Includes all major purchases of capital assets and infrastructure.
- **70/80 Debt Service**
70 refers to the principal payment of debt and 80 for interest payments.
- **90 Transfers**
Expenditures made to other funds for services rendered.

Section II: *Processes, Policies & Summaries*

Financial Policies

As stewards of the public's resources, the City Council and City Manager ensure sound financial management of the City over the long-term. The following set of Financial Policies provides consistent guidance to financial and budget decisions. This set of well designed policies also provides assurances to the citizens, creditors, grantors and others interested in the City's financial condition that the city is operated in a fiscally sound and prudent manner.

Budget Policies

As required by State law and by prudent financial management, the City will annually prepare a balanced budget where projected resources meet or exceed projected needs. Additionally to be fiscally sound the budget will:

- Fund recurring operating expense with recurring revenues so that ongoing needs are not adversely impacted by the loss of one-time revenues.
- Allow for funding one-time needs with non-recurring revenues wherever possible.
- Provide sufficient resources to the Contingency Fund so that it can reasonably respond to critical unforeseen needs of the City without requiring the City to divert resources from other important services, but not to exceed the legal maximum funding of the equivalent 37.5 cents per thousand.
- Include a five-year forecast of the City's revenues and expenses so the City Council can make current budget decisions in the context of the City's long term financial conditions.
- Establish utility rates sufficient to provide net positive operating results and to meet or exceed any revenue bond coverage requirements.

Reserve Policies

Reserves provide important protections against the regular fluctuations of local economic conditions and the month-to-month variability of revenue collections. Reasonable reserves provide the working capital needed to support City operations through these cycles and should be set at a level that can sustain City operations for the most adverse conditions that can reasonably be expected. It is most useful to define reserves as a percentage of budgeted expenses so it can be readily converted to the number of days or months the City can operate without receiving additional revenues.

The City of Fife maintains its accounting records on the cash basis of accounting where revenues and expenses are only recognized when revenues are actually received and expenses when actually paid. Therefore, to properly determine the amount of the reserve in any fund, known liabilities expected to be paid from current resources will be considered as an obligation of existing cash balances (similar to the accrual basis of accounting) so that only the unobligated portion of the cash balance is used to determine the reserve amount.

General Fund

The City will maintain an undesignated fund balance of 17% of annual budgeted General Fund expenses (a two month reserve) in the General Fund. The General Fund may also have additional reserves.

Section II: *Processes, Policies & Summaries*

Utilities

The Water, Sewer and Storm Drainage utilities shall maintain sufficient cash reserves to provide for seasonal variability of revenues and to allow it to operate if a bi-monthly billing cycle is disrupted for any reason.

Other Funds

The other funds of the City are used to account for restricted revenue sources provided for a specifically defined service or expense. Any reserve requirements thought prudent for operations should be determined by the City Manager as part of the budget request.

Accounting & Financial Reporting Policies

The City utilizes a “funds” accounting system wherein monies restricted for specific purposes are accounted for in separate “funds” in accordance with national accounting practices. Unrestricted monies will be accounted for in the General Fund. The City maintains its accounting system on the cash basis of accounting as permitted by the State Auditor and will use the BARS chart of accounts as required by the State Auditor. Additionally, the City complies with the systems and controls prescribed by the Office of the State Auditor who establishes procedures and records which reasonably assure safeguarding of assets and the reliability of financial reporting.

The City prepares an annual financial report using the forms prescribed by the State Auditor and is audited on a schedule determined by the State Auditor and as prescribed by State law. The City may, from time-to-time, arrange for additional audits when considered beneficial to the City’s operations. The State Auditor is required to examine the affairs of all local governments at least once every three years. The City is audited annually. The examination must include, among other things, the financial condition and resources of the City, whether the laws and constitution of the State are being complied with and the methods and accuracy of the accounts and reports of the City. Reports of the auditor’s examinations are required to be filed in the Office of the State Auditor and in the finance department of the City. The State Auditor last audited the City’s financials for fiscal year ended December 31, 2010 and received a clean audit with no significant findings of fact. Additionally, the Finance Director prepares quarterly financial reports showing the budget versus actual revenues and actual expenses and projecting year end results for the General Fund and each utility fund.

Debt Policies

The City’s ability to pledge its revenues in support of debt is a valuable “tool” for providing essential public services, but can threaten the City’s financial flexibility and the City’s credit rating if not used prudently. Excessive use of debt can also create an onerous tax burden on city property owners. Therefore, the City adopts the following policies to guide its use of debt:

- Debt will not be used to fund operating expenses, but will be used solely to fund capital expenses (which can include city costs associated with the capital project) and long-term obligations.
- Utility debt will be secured solely by the revenues of the utility or by special assessments in the case of Utility Local Improvement Districts (ULID’s) and will not ordinarily be secured by a general pledge of the City’s revenues.

Section II: *Processes, Policies & Summaries*

- The City will annually prepare Schedules of Long-term Debt and Constitutional Limitation of Indebtedness in the form prescribed by the State Auditor to report its debt outstanding and its compliance with State debt limits.
- The City will reserve at least 20% of its non-voted legal debt capacity to provide for emergency needs.
- Long-term debt will be structured in a manner so that the term of the debt does not exceed the expected useful life of the asset or improvement being funded.

In the event of extreme economic circumstances or natural or manmade disaster the City will modify these policies to ensure the safety and security of the community.

Investment Policy

The City will invest its cash balances in a manner designed primarily to ensure monies are available for their intended purposes when they are needed. That is, preservation of principle is the primary objective. With that objective in mind the Finance Director will invest only in investment instruments authorized by State statutes. Investments in the State Treasurer's Local Government Investment Pool (LGIP) are considered reasonably diversified because of the asset allocation policies of the "pool." Investment held directly by the City shall have maturities not exceeding four years.

City's Response to Changing Economic Conditions

In response to the pressures experienced during the current economic recession, the City made significant expenditure reductions. In late 2007, the City noticed a decline in sales tax revenue and responded by preparing a cost reduction plan, which included personnel layoffs and a hiring freeze in early 2008. Additional reductions were made in late 2008 and the 2009 Budget reflected lower revenue and expenditure levels. The Council was active in overseeing these changes and it established a policy to preserve General Fund reserves. As a direct result of these efforts and policy, the City continues to maintain healthy General Fund reserve levels. The City projects a General Fund balance of 30.3% of expenditures for the year ending December 31, 2011. The City's 2012 Budget includes a 5.5 position staff reduction to reduce expenditures

Section II:
Processes, Policies & Summaries

Assets, Compensated Balances, & Pensions

Cash

It is the City of Fife's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest earned on short-term investments is prorated to the various funds based upon their cash balances, while the interest earned on long-term investments is allocated to the General Fund.

Deposits

The City of Fife deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

Investments

The City of Fife invests only in those types of investment instruments authorized by State law for local governments and in accordance with its investment policies. The City invests in federal agency home loan securities through a brokerage agreement with Piper Jaffrey and a safekeeping trust account at U.S. Bank. Temporary surplus cash balances are invested through the Local Government Investment Pool (LGIP) operated on behalf of local governments by the Washington State Treasurer's Office, with the remaining monies invested overnight through a NOW account with Key Bank. The City does not invest in derivatives or similar transactions.

Capital Assets

Capital assets are the long-lived assets of the City and are recorded as expenditures when purchased.

Compensated Absences

Employees may accumulate vacation leave up to a maximum of 30 days, except for exempt employees who may accumulate above that maximum but must reduce it to 30 days by the next January 1. Upon separation from City service, employees will be paid up to a maximum of 30 days, except exempt employees who may be paid for up to 60 days.

Sick leave may be accumulated up to 1600 hours. Upon termination from City service, sick leave will be paid at the following schedule:

- 1st 50 days – 25%
- 2nd 50 days – 50%
- 3rd 50 days – 75%
- 4th 50 days – 100%

Long-term Debt

The City's long-term debt consists of several Limited Tax General Obligation Bond (LTGO) issues, a combined Water/Sewer Revenue Bond issue and Local Improvement District (LID) special assessment bond issue and several real estate contracts. The City has no voted or excess levy debt.

Section II: *Processes, Policies & Summaries*

Fund Balance

The City of Fife financial policies provide for a General Fund balance reserve of 17% (two months) of annual budgeted expenditures for cash flow purposes. It is measured at year end. A Fund Balance is used to meet seasonal cash flow shortfalls, to have sufficient resources to begin the next fiscal year and to have resources to meet emergency or unanticipated expenses. Fund balance levels are dictated by cashflow requirements to support operating expenses; relative rate stability from year to year for enterprise funds; susceptibility to emergency or unanticipated expenditures; credit worthiness and capacity to support debt service requirements; legal or regulatory requirements affecting revenues, disbursements and fund balances; and reliability of outside revenues. The 2004 Water-Sewer Revenue Bonds have a reserve requirement of \$1,051,300 that is held in the Parity Bond Fund.

Pension Plans

Substantially all City of Fife full-time and qualifying part-time employees participate in pension systems operated by the Washington State Department of Retirement Systems. These include PERS I, PERSII, PERS III, PSERS, LEOFF I and LEOFF II. These are cost sharing multiple employer public employee systems. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Fife's financial statements. Contributions to the various systems by both the employer and participating employees are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

State of Washington
Office of Financial Management
300 Insurance Building AQ-44
Olympia, Washington 98405-0201

Section II:
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Statutory Debt Limitations

The power of the City to contract debt of any kind is controlled and limited by State law. All debt must be set forth in accordance with detailed budget procedures and paid for out of identifiable receipts and revenues. The budget must be balanced for each fiscal year. It is unlawful for an officer or employee of the City to incur liabilities in excess of budgetary appropriations.

The amount of indebtedness that a City may legally incur is limited by the Constitution and laws of the State. For State law purposes, "debt" generally includes any unconditional obligation that is generally payable from and secured by a pledge of tax revenues.

Voter-Approved Debt. As prescribed by State statutes, the unlimited tax general obligation indebtedness permitted for cities, subject to 60 percent majority vote of registered voters, at an election at which 40 percent of those who voted at the last general election cast a ballot, is limited to 2.5 percent of assessed valuation for general purposes, 2.5 percent for utilities and 2.5 percent for open space and park facilities and for economic development purposes.

Non-Voted Debt. Within the 2.5 percent of assessed valuation for general purposes, the City may, without a vote of the electors, incur general obligation indebtedness in an amount not to exceed 1.5 percent of assessed valuation. Additionally, within the 2.5 percent of assessed valuation for general purposes, the City may also, without a vote of the electors, enter into leases, if the total principal component of the lease payments together with the other non-voted general obligation indebtedness of the City, does not exceed 1.5 percent of assessed valuation. The combination of unlimited tax and limited tax general obligation debt for general purposes, including leases, cannot exceed 2.5 percent of assessed valuation and for all purposes cannot exceed 7.5 percent of assessed valuation.

Future Financing

The City plans to issue Local Improvement District ("LID") bonds in 2012 for LID No. 08-01 and No. 08-02 in the approximate combined amount of \$12 million simultaneously with the redemption of the outstanding Bond Anticipation Notes for these LIDs issued in the same amount. Debt service on the LID bonds will be paid from property assessments and is not payable from *ad valorem* property taxes or other sources in the City's General Fund.

The City's Water Utility has an option to purchase land for the Holt Well capital project. The test well drilling at this site was successful and water rights have been applied for. The entire project is estimated to cost approximately \$5.190 million, with the land purchase phase expected to cost \$660,000 in 2012 and the water treatment facility construction phase to cost \$4,530,000 in 2013. The City received two Washington State Public Works Trust Fund ("PWTF") loans to fund 90% of the cost of each phase with an interest rate of 0.5%. These loans would be payable from the Water Utility Fund but would be secured by the City's full faith and credit and its General Fund. If the City is unsuccessful in obtaining PWTF loans for this project, it may consider issuing utility revenue bonds for the financing.

Section II:
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Schedule of Future Debt Service

The following table provides a schedule of debt service requirements for the City's Outstanding Limited Tax General Obligation Bonds and a preliminary schedule for the Bonds. The City has no outstanding Unlimited Tax General Obligation Bonds.

Year	General Obligation Debt Service		Non GO Debt Service		Total Debt
	GO Bonds	Real Estate Contract	Revenue Debt	Spec. Asses. Debt	
2012	\$ 1,490,587	\$ 67,679	\$ 266,533	\$ 667,654	\$ 2,492,453
2013	1,716,399	67,679	266,773	648,011	2,698,862
2014	1,710,836	67,679	266,656	627,762	2,672,933
2015	1,718,475	28,200	265,750	625,706	2,638,131
2016	1,712,280		264,125	627,331	2,603,736
2017	1,709,058	--	265,250	582,706	2,554,014
2018	1,328,388	--	265,000	253,456	1,846,844
2019	1,002,700	--	265,375	256,081	1,521,156
2020	1,000,250	--	264,375	254,081	1,518,706
2021	1,006,650	--	265,875	252,581	1,525,106
2022	347,825	--	265,000	256,456	866,281
2023	349,125	--	262,750	255,706	867,581
2024	347,125	--	263,000	195,228	805,353
2025	349,725	--	262,750	27,250	639,725
2026	346,725	--	262,000	28,000	636,725
Total	\$16,136,148	\$231,237	\$3,968,212	\$5,558,009	\$25,893,606

Section II:
Processes, Policies & Summaries

Taxes

Description	Actual 2009	Actual 2010	Budget 2011	Forecast 2011	Budget 2012
Property Tax	\$ 2,474,760	\$ 2,528,166	\$ 2,652,564	\$ 2,652,564	\$ 2,779,882
Sales Tax	4,561,955	4,719,634	4,852,000	4,753,043	4,800,000
Utility Taxes ¹	732,279	737,642	735,000	735,000	802,000
Hotel/Motel Taxes ²	545,464	443,830	430,000	430,000	460,000
Real Estate Excise Taxes ³	288,082	389,384	240,000	240,000	156,000
Other Taxes	355,115	345,406	332,000	332,000	422,553
Total Taxes	\$ 8,957,655	\$ 9,164,062	\$ 9,241,564	\$ 9,142,607	\$ 9,420,435

¹ Utility taxes are receipted directly into Debt Service Fund 213 for the payment of debt service on the City's Limited Tax General Obligation Bonds.

² Hotel/Motel taxes are receipted directly into the Stadium & Convention Tax Fund 104 for tourism- related expenditures.

³ Real Estate Excise Tax (REET) is receipted directly into the Growth Management Fund 106 for capital-related expenditures for government facilities.

Property Taxes

The Pierce County Assessor-Treasurer is the agent to assess and collect property taxes levied in the County for all jurisdictions. Collections are distributed after month end for each month, and revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied. The City's regular levy for the year 2012 will be \$1.47 per thousand of assessed valuation of \$1.89 billion. The City does not impose any excess levies for any purpose.

Local Sales and Use Tax. The City imposes a sales and use tax as a percent of the selling price on any retail sales or use of tangible personal property delivered or used within the City, upon which the State also imposes a sales and use tax. The total sales and use tax rate in the City is currently 9.3%, of which the City receives approximately 0.85%. The increase for 2012 is based upon the two new auto dealerships and one that relocated to a new facility.

Utility Tax. A utility tax is levied on the gross operating revenues of both municipal-owned and investor owned utilities within the City, including: 4.5% for telephone, 4.5% for natural gas, 3.0% for electricity, 4.5% for sewer service and 4.5% for water. Effective January 1, 2012, the City will collect a utility tax of 4.5% for storm drainage. The electricity tax is being increased in phases during 2012 to reach a full 6.0% effective January 1, 2013.

Real Estate Excise Tax. Real estate excise tax ("REET") is levied on each sale of real property within the City at the rate of 0.50% of the selling price. By statute, the City may only use REET receipts for certain capital expenditures, and not for City operations. This revenue is volatile and hard to predict. A more conservative amount has been budgeted for 2012 due to the current economy.

Other Taxes

The City also collects various other taxes. New for 2012 is an in-lieu property tax on municipal-owned utilities in the amount of \$59,427.

Section II:
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License & Permit Revenue

Description	Actual 2009	Actual 2010	Budget 2011	Forecast 2011	Budget 2012
Business Licenses	\$ 187,650	\$ 170,450	\$ 175,000	\$ 175,000	\$ 175,000
Building Related Permits	192,695	130,276	150,000	150,000	190,000
Cable TV Franchise Fee	99,781	105,048	100,000	100,000	113,281
Electrical Franchise Fee	454,503	459,065	500,000	500,000	500,000
Other Licenses & Permits	13,036	12,245	10,000	10,000	6,000
Total Licenses & Permits	\$ 947,665	\$ 877,084	\$ 935,000	\$ 935,000	\$ 984,281

Licenses & Permits. This revenue has been increased by \$49,281 (5.3%) overall to reflect higher revenue estimates for building related permits and cable TV franchise fee revenue.

Intergovernmental Revenue

Description	Actual 2009	Actual 2010	Budget 2011	Forecast 2011	Budget 2012
State Share-Sale Tax Mitigation	\$ 548,854	\$ 540,888	\$ 567,947	\$567,947	\$ 538,875
Communication Services to other Governments	309,618	309,881	409,000	309,000	310,000
Tribal Casino Impact Mitigation	1,208,813	1,281,975	1,253,280	1,253,280	1,231,280
Tribal Casino Impact Catch-up	-	-	850,000	850,000	-
Jail Services to Other Governments	457,173	470,711	461,000	461,000	313,959
Cap Grant – Street Construction	796,463	6,381,438	7,825,193	1,848,968	9,418,301
Cap Grant – Storm Drain	181,398	23,951	-	-	-
Cap Grant – Police Command Vehicle	356,548	23,547	-	-	-
State Shared – Vehicle Gas Tax	202,323	206,053	217,481	217,483	241,195
Other Intergovernmental	237,619	546,117	620,483	536,333	682,474
Total Intergovernmental	\$ 4,298,809	\$ 9,784,561	\$ 12,204,385	\$ 6,044,011	\$ 12,736,084

State Share-Sale Tax Mitigation. In 2009, the City began receiving a quarterly tax distribution from the State's Sales and Use Tax Mitigation Account, established to compensate taxing jurisdictions for local revenue losses as a result of a change in sourcing provisions of a new streamlined sales and use tax agreement. Sales tax and mitigation are receipted into the General Fund 001.

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Tribal Casino Impact Mitigation. The City's General Fund is strengthened by receipt of \$850,000 annually per an inter-local agreement with the Puyallup Tribe. The underlying contract of \$850,000 annually remains in perpetuity to mitigate the impacts of the Puyallup Indian Tribe's Emerald Queen Casino located in the City, as provided for under federal law. In addition, the City receives an in-lieu property tax of approximately \$188,000 and an in-lieu sales and hotel/motel tax of approximately \$193,000 from the Puyallup Tribe because it purchased an existing hotel for the construction of the Emerald Queen Hotel/Casino complex. All of these monies are deposited into the General Fund as intergovernmental revenue. For 2011, a one-time catch-up payment of \$850,000 from a prior year was budgeted as well.

Jail Services to Other Governments. The revenue estimate for 2012 reflects the loss of a 10-bed per day minimum contract with the City of Federal Way.

Other Intergovernmental. Capital grant revenues reflect estimates provided by grantors for approved projects and timelines.

Charges for Services Revenue

Description	Actual 2009	Actual 2010	Budget 2011	Forecast 2011	Budget 2012
Interfund Professional Services	\$ 1,163,127	\$ 1,156,311	\$ 1,191,000	\$ 1,191,000	\$ 1,594,836
Recreation Programs	292,323	314,514	291,500	291,500	355,500
Interfund Detention Services	405,791	364,477	358,210	325,222	298,447
Engineering Services Street Construction	-	-	997,500	997,500	-
Water Utility Charges	2,017,351	2,175,960	2,810,000	2,810,000	3,393,000
Sewer Utility Charges	3,386,484	3,454,421	3,520,600	3,520,600	3,556,900
Storm Drain Utility Charges	869,743	725,891	680,000	680,000	711,000
Interfund Fleet Maintenance Charges	275,792	339,720	316,787	316,787	345,672
Other Charges for Services	354,716	372,744	325,900	325,900	327,568
Total Charges for Services	\$ 8,765,327	\$ 8,904,038	\$ 10,491,497	\$ 10,458,509	\$ 10,582,923

Charges for Services. Engineering services is for a one-time street construction project with the Puyallup Tribe across the street from its casino. The water utility has a 20% rate increase that takes effect on January 1, 2012.

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Fines and Forfeits Revenue

Description	Actual 2009	Actual 2010	Budget 2011	Forecast 2011	Budget 2012
Traffic Infractions	\$ 361,866	\$ 332,645	\$ 350,000	\$ 350,000	\$ 350,000
Red Light Photo Enforcement	2,447,910	3,763,495	3,000,000	3,000,000	3,000,000
Other Fines & Forfeits	146,228	141,470	123,820	123,820	125,100
Total Fines & Forfeits	\$ 2,956,004	\$ 4,237,610	\$ 3,473,820	\$ 3,473,820	\$ 3,475,100

Miscellaneous Revenue

Description	Actual 2009	Actual 2010	Budget 2011	Forecast 2011	Budget 2012
Proceeds Sales of Real Estate	\$ -	\$ -	\$ 11,325,313	\$ 11,325,313	\$ -
Traffic Impact Fees	874,530	370,335	52,500	859,057	52,000
LID Property Owner Loan Payments	1,501,387	1,010,552	857,200	857,200	701,000
Utility General Facilities Charges	589,841	526,121	234,000	234,000	232,000
Interfund Fleet Lease / Miscellaneous	368,619	288,681	297,612	314,612	158,736
Other Miscellaneous	587,892	602,667	411,423	439,246	439,818
Total Miscellaneous	\$ 3,922,269	\$ 2,798,356	\$ 13,178,048	\$ 14,029,428	\$ 1,583,554

Proceeds Sale of Real Estate. On March 4, 2011, the City sold land totaling 54.4 acres known as The Gathering Place. The gross proceeds were \$14,312,107, less outstanding real estate debt of \$2,986,794, for net proceeds of \$11,325,313.

Traffic Impact Fees. These fees are assessed at the time building permits are taken out. This revenue is volatile and hard to predict.

Interfund Fleet Lease/Miscellaneous. The General Fund departments are not going to be assessed lease charges in 2012, thereby reducing this revenue by \$155,876.

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Other Sources

Description	Actual 2009	Actual 2010	Budget 2011	Forecast 2011	Budget 2012
Transfers	\$ 3,413,801	\$ 4,500,348	\$ 5,100,167	\$ 3,836,367	\$ 7,530,867
Loan Proceeds	-	-	20,634,985	15,901,318	3,418,682
Interfund Loans	-	-	260,000	260,000	2,162,000
Total Other Sources	\$ 3,413,801	\$ 4,500,348	\$ 25,995,152	\$ 19,997,685	\$ 13,111,549

Transfers. Reflect financial support received from other funds for operations and maintenance, debt repayment or capital projects.

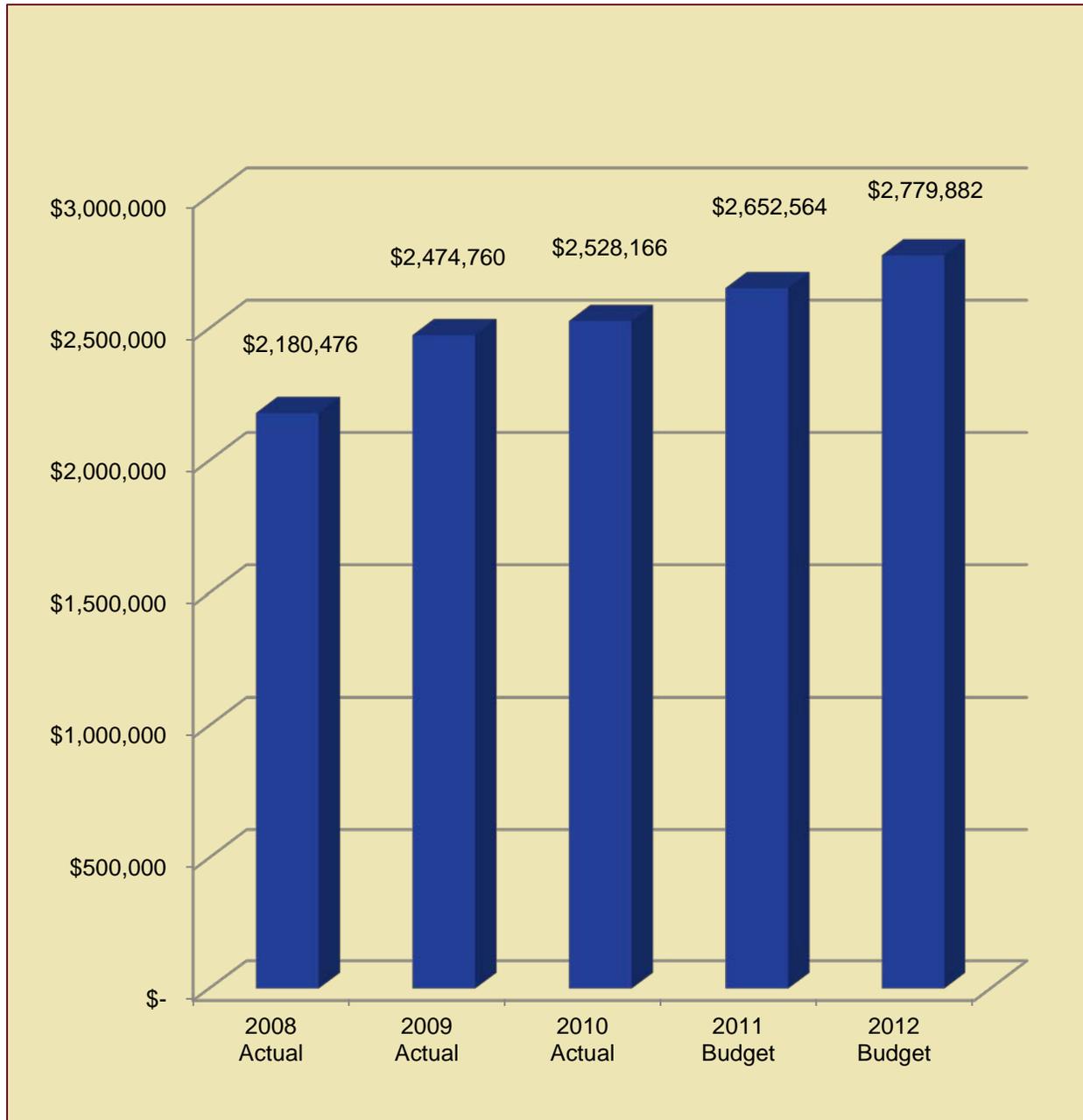
Loan Proceeds. These are interim and long-term debt issued for capital projects. On January 25, 2011, the City sold two LID bond anticipation notes. The LID2008-1 note is \$3.0 million and comes due on March 1, 2012. The LID2008-2 note is \$9.0 million and comes due on February 1, 2013. On December 27, 2011, the City sold Limited General Obligation and Refunding Bonds in the amount of \$5.9 million, of which \$3.9 million was new money. For 2012, \$3.4 million has been budgeted for loan proceeds for capital projects.

Interfund Loans. These are cash advances from other funds. The creditor fund has to be repaid when the borrower fund has excess revenues or other sources available. Loan detail for 2012 is as follows:

Borrower Funds	Creditor Funds		Purpose
	Crime Prevention 107	Sewer 402	
Drug Intervention 110	\$ 162,000	-	Operations & Maintenance
Street Construction 301	-	\$ 2,000,000	Capital Programs

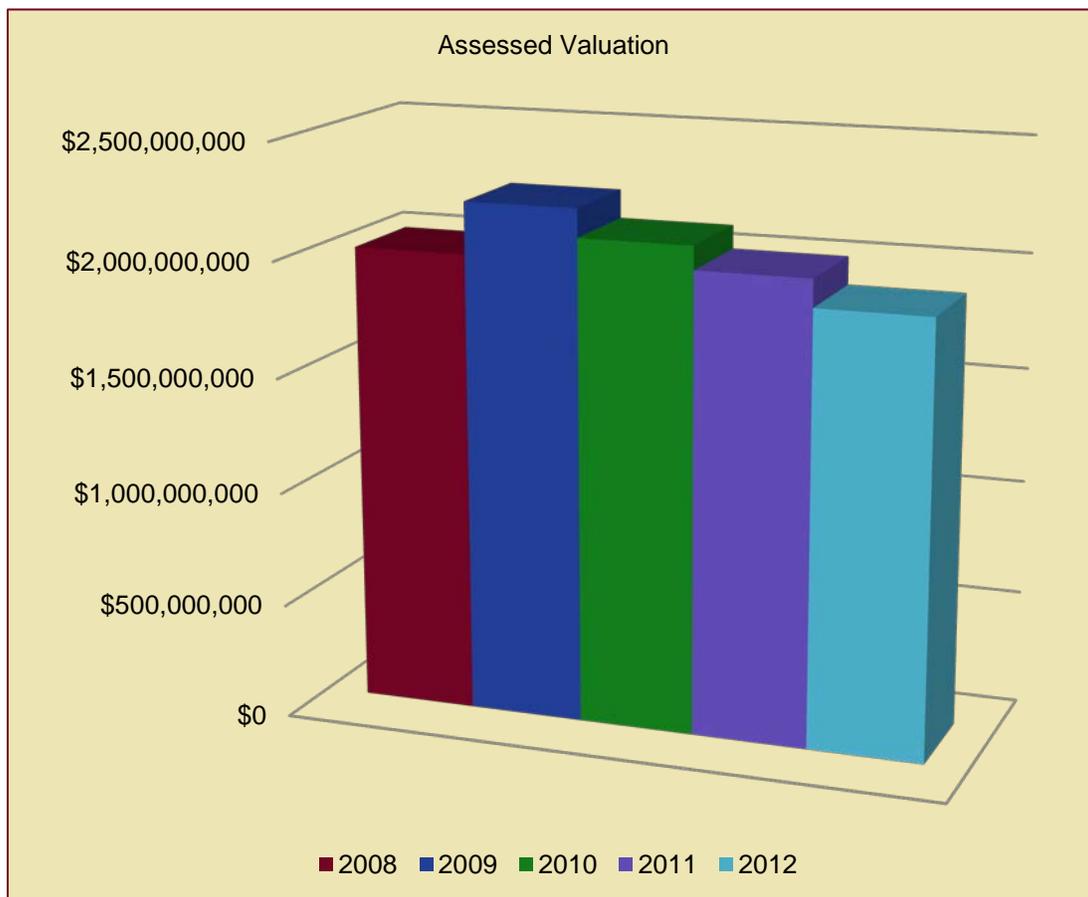
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City of Fife Property Tax Annual Comparison



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Assessed Value, New Construction and Property Tax Levy Actuals for Years 2008 through 2011 and 2012 Estimates				
Year	Assessed Valuation	New Construction	Levy Amount	Levy Rate Per \$1,000
2008	\$ 2,007,019,822	\$ 190,479,327	\$ 2,225,261	\$ 1.1087
2009	\$ 2,232,235,640	\$ 79,659,147	\$ 2,559,391	\$ 1.1466
2010	\$ 2,109,593,643	\$ 17,791,125	\$ 2,588,462	\$ 1.2270
2011	\$ 2,008,596,565	\$ 50,487,803	\$ 2,652,564	\$ 1.3206
2012	\$ 1,888,418,890	\$ 21,541,000	\$ 2,779,882	\$ 1.4721



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Annual Sales Tax Comparison For years 2009 – 2012					
Description	2009 Actual	2010 Actual	2011 Budget	2011 Forecast	2012 Budget
Sales Tax Collected – Annual Comparison	\$ 4,561,955	\$ 4,719,634	\$ 4,852,000	\$ 4,753,043	\$ 4,800,000

